

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

RECEIVED
JUN 30 4 12 PM '00
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

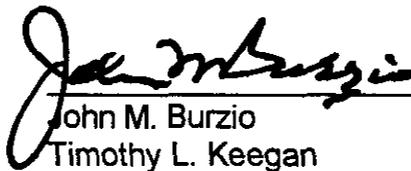
POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSES OF TIME WARNER INC.
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE
TO WITNESS HALSTEIN STRALBERG (USPS/TW-T1-19-24)
(June 30, 2000)

Time Warner Inc. (Time Warner) hereby provides the responses of witness Halstein Stralberg (TW-T-1) to Postal Service interrogatories USPS/TW-T1-19-24 (filed June 16, 2000). Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,


John M. Burzio
Timothy L. Keegan

Counsel for
Time Warner Inc.

Burzio & McLaughlin
Canal Square, Suite 540
1054 31st Street, N. W.
Washington, D. C. 20007-4403
tel/(202) 965-4555
fax/(202) 965-4432

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/TW-T1-19. With respect to your proposed distribution for the mixed mail and the not-handling tallies in the Function 4 pools:

a. On p.34, you indicate that:

“The costs of empty containers of a given type that are associated with specific shapes through Question 19 data are distributed over only the direct and mixed container data for the corresponding container type and shape.”

Program MODSHAP codes seem to indicate that the distribution for the costs of empty containers associated with specific shapes are not done by container type, but only by shape within each Function 4 cost pool. Please reconcile your statement with Program MODSHAP SAS codes.

- b. Confirm that there are no differences between how the not-handling costs associated with specific shapes through Question 19 data are distributed within each Function 4 cost pool, and how the costs of empty containers in a. above are distributed. If you do not confirm, please explain what those differences are and indicate which SAS program codes are relevant to that distribution.
- c. Confirm that the distribution key for the not-handling costs with no Q.19 shape association includes, in addition to the handling tallies in that cost pool, the distributed not-handling tallies with Q.19 shape information in b. above. If you do not confirm, please explain what is included in the distribution key and indicate which SAS program codes are relevant to that distribution.

USPS/TW-T1-19.

a-b. Confirmed. It was my intention to present a method for distributing Function 4 mail processing costs that corresponds with the Postal Service's method except for: (1) the additional use of shape related Q.19 data; and (2) removal of window service related not handling data, which I believe are more appropriate to distribute over the other window service data in cost segment 3.2. Because I did not write the SAS program that implements these changes myself, and because of the short time frame in which this had to be done, the SAS program in MPA-LR-3 actually provides a different treatment of empty container costs with shape related information, as described in your questions above.

To determine the impact of this difference in the treatment of shape-related empty container costs, I have implemented both distribution approaches in the format of a spreadsheet, which is being filed concurrently with this answer as TW-LR-3.

In the spreadsheet, there is a page for each of the four Function 4 cost pools where there exists a significant amount of Q.19 data (pools LD41, LD42, LD43 and LD44). The final distribution of accrued costs to subclasses and special services, using USPS volume variability assumptions, is in column DJ of each spreadsheet. Control variables in cell DF1 and DF2 let one respectively: (1) choose whether or not to distribute window service costs within the pool, and (2) select whether to distribute related empty container costs within each container type or more broadly over all direct and mixed costs at the given pool (but within shape category when applicable). As can be verified, the approach chosen for distributing the shape related empty container costs has little impact. In either case, the effect of applying the Q.19 information is to reduce Periodicals costs. Distribution of empty container costs within container type as well as shape category appears to lead to slightly lower Periodicals costs in these pools.

- c. Confirmed. Please note that in the spreadsheet calculations described above, shape-related and not-shape-related not handling costs are distributed simultaneously.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/TW-T1-20. With respect to your proposed distribution for the mixed mail and the not-handling tallies in the allied cost pools

- a. Confirm that the allied cost pool mixed mail costs (items and containers, including empty equipment handling) associated with a Q.19 piece distribution operation are distributed over the direct tallies of the corresponding piece-distribution cost pool. If you do not confirm, please explain how these costs are distributed and indicate which SAS program codes are relevant to that distribution.
- b. Confirm that allied cost pool not-handling costs associated with a Q.19 piece distribution operation are distributed over the direct and distributed mixed mail tallies of the corresponding piece distribution cost pool. If you do not confirm, please explain how these costs are distributed and indicate which SAS program codes are relevant to that distribution.
- c. Confirm that none of the direct tallies in the allied cost pools that are associated with a Q.19 piece-distribution operation are used in a. and b. above. If you do not confirm, please explain how those direct tallies are used and indicate which SAS program codes are relevant to that distribution.
- d. Confirm that direct tallies in allied cost pools (including those associated with a Q.19 piece distribution operation) are aggregated with direct tallies for all Function 1 and LDC 79 cost pools (excluding the special service cost pools) to distribute the mixed mail costs that do not have a Q.19 piece-distribution operation association. If you do not confirm, please explain how those direct tallies are used and indicate which SAS program codes are relevant to that distribution.
- e. Confirm that the distribution key for the not-handling costs with no Q.19 shape association includes, in addition to the handling tallies for all Function 1 and LDC 79 cost pools (excluding the special service cost pools), the distributed not-handling tallies with Q.19 shape information in b. above. If you do not confirm, please explain what is included in the distribution key and indicate which SAS program codes are relevant to that distribution.

USPS/TW-T1-20. Confirmed for a-e. When Q.19 data for an allied tally associate it with a particular piece distribution, I assume that the sampled employee actually was working at that piece distribution operation and that the most appropriate distribution key is therefore the direct costs incurred at that operation.

One could argue, as you appear to suggest in subpart c, that allied direct tallies whose Q.19 data indicate a specific shape and sorting technology should be included in the distribution key for corresponding allied mixed mail and not handling tallies. I did not include this in my proposed alternative method for the following reasons.

First, it would make little difference. For example, in USPS LR-I-12 there are 8083 direct MODS tallies where the Q.19 data indicate that sampled employees were working at FSM's. Of those, 7571 tallies (93.7%) show the sampled employees actually clocked into the FSM cost pool. Only 256 tallies (3.2%) show employees clocked into Function 1 allied pools.¹ Obviously, those few tallies will have little impact on the distribution key formed primarily from the FSM direct tallies. On the other hand, distributing allied mixed mail and not handling tallies based on allied direct tallies only, or on all direct tallies, while ignoring information indicating where those employees were actually working, can lead to a considerable distortion.

Second, one might argue that to be consistent with your implied suggestion, the direct tallies in a given piece distribution pool whose Q.19 information indicate that the employees actually were working somewhere else should ideally be removed from the distribution key used for mixed and not handling tallies with corresponding Q.19 data.

Finally, the use of Q.19 data providing shape and sorting technology association for a subset of the allied mixed mail and not handling tallies is only a partial solution to a much bigger problem. Most allied employee time, especially in opening unit and pouching operations, is spent serving the mail that will be sorted or already has been sorted in specific sorting operations. Most of this time is "not handling," and the inability of the IOCS to relate most of that not handling time to the piece operations actually served is one of the major weaknesses of the current costing system. The Q19 data can be used in those instances when allied employees are actually seen at a piece distribution operation, as when the allied employee, for example, brings mail that is ready for piece sorting to an FSM or an OCR. But that only occurs some of the time, and there currently seems to be no way to accurately associate the remaining allied not handling time with specific piece operations.

¹ Similar relationships apply to other piece distribution operations. It is perhaps least clear for the OCR pool. There are 2297 direct MODS tallies where the Q.19 data indicate that the sampled employees were working at an OCR. Of those tallies, 243 (10.6%) indicate that the employees were clocked into allied operations, and only 1517 (66%) indicate that the employee actually was clocked into the OCR pool. Another 476 (20.7%) indicate employees clocked into the BCS pool.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/TW-T1-21. With regard to the “support” pools and “migrated” costs:

- a. On p.41, at lines 17-20, you propose to distribute the direct tallies to the specific subclasses or special services. What volume-variability factors do you apply to those direct tallies?
- b. Please explain how you distribute the costs for the non-direct “migrated” tallies.

USPS/TW-T1-21.

- a. It is my understanding that the SAS program in MPA-LR-3 simply uses the average variability, as calculated by the Postal Service’s method, and applies it to both the direct and indirect portions of the support pools.

As explained in the part of my testimony that you refer to, my intent was to assign full volume variability to the direct costs in the “support” pools. That does not reflect a conclusion on my part that these costs necessarily are 100% volume variable but simply the fact that, in witness Van-Ty-Smith’s estimates of volume variability for pools where the variability is not determined econometrically, direct costs are assumed to be fully volume variable. See USPS LR-106 at II-40-41, description of program MODIVARB. The non-direct costs in these pools would then have a correspondingly lower variability, due to the presence of many tallies representing activities considered to have fixed costs in the traditional approach to volume variability analysis.

- b. The method of distributing the remaining volume variable “support” pool costs in MPA-LR-3 is essentially the same as in Van-Ty-Smith’s program.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/TW-T1-22. Please refer to your testimony at section IV part C, pp.58-62, which discusses your proposed 5digit pallet discount.

- a. Please provide the percentages of Periodicals Regular Rate and the percentages of Periodicals Nonprofit piece volumes that are currently prepared on 5-digit DSCF pallets and on 5-digit DDU pallets.
- b. Please provide the percentages of Periodicals Regular Rate and the percentages of Periodicals Nonprofit piece volumes that would be prepared on 5-digit DSCF pallets and on 5-digit DDU pallets if your proposed 5-digit pallet discount was in effect.
- c. Please provide the percentages of Periodicals Regular Rate and the percentages of Periodicals Nonprofit carrier route piece volumes that are currently prepared on 5-digit DSCF pallets and on DDU pallets.
- d. Please provide the percentages of Periodicals Regular Rate and the percentages of Periodicals Nonprofit carrier route piece volumes that would be prepared on 5-digit DSCF pallets and on 5digit DDU pallets if your proposed 5-digit pallet discount was in effect.
- e. Please provide, by current presortation and containerization, separate Periodicals Regular Rate and Periodicals Nonprofit piece volumes that would migrate to 5-digit DSCF pallets and to 5digit DDU pallets to qualify for your proposed 5-digit pallet discount.
- f. Are you familiar with the proposed DMM rules that require carrier route mail to be on separate pallets from 5digit mail? If so, please explain the impact these rules would have on your proposal.
- g. Please quantify the revenue "leakage" due to your proposed 5digit pallet discount.
- h. What would be the increase in other rate cells for Regular and Nonprofit Periodicals if your 5digit pallet discount was in effect? Please provide all the calculations and the resulting rates.

USPS/TW-T1-22. This interrogatory asks for estimates of what pallet volumes would be under certain hypothetical conditions. I am unable to make such estimates. The Postal Service itself may be in a better position to do so, considering the extensive amount of Mail.dat files and other survey information, provided by mailers, that went into Christensen Associates' recent preparation of the material in USPS LR-I-332. Instead of projections that I am not in a position to make, I discuss below some of the factors most likely to affect future 5-digit pallet volumes.

- a. I assume that by "currently" you mean in BY98. According to the data tabulated in USPS LR-I-87, regular rate pieces entered on 5-digit pallets were 6.56% of total regular rate Periodicals pieces in BY98. The 6.56% included 0.74% on 5-digit

"automation" pallets. For nonprofit, the percentage on 5-digit pallets was estimated at 5.33%.

According to the entry point estimates tabulated in LR-I-332, which I understand is based on the same Christensen Associates survey as the numbers quoted above, 77.99% of 5-digit pallets are entered at the DSCF and 3.32% at the DDU. That would indicate that the percentages entered on 5-digit pallets at the DSCF and DDU are as follows:

Regular rate: DSCF: 5.12%	DDU: 0.22%
Nonprofit: DSCF: 4.16%	DDU: 0.177%

- b. I do not have this information. See, however, my comments under subpart e below.
- c. According to the survey data tabulated in USPS LR-I-87, 15.16% of carrier route presorted regular rate Periodicals pieces are entered on 5-digit pallets. Assuming that this is accurate and applying the entry point estimates quoted in my answer to subpart a above, the percent of carrier route presorted regular rate Periodicals pieces that are entered on 5-digit pallets at the DSCF is 11.82%, and the corresponding percentage for DDU entry is 0.5%.

For nonprofit Periodicals, a similar estimating methodology gives 6.86% for DSCF entry and 0.29% for DDU entry.

- d. I do not have this information. See, however, my comments under subpart e below.
- e. I do not have this information. A number of factors are likely to impact the extent of the migration. Some may have an immediate impact and others a more gradual impact.

First, since my proposal specifies that the discount will apply to 5-digit pallets prepared according to Postal Service regulations, and since the Postal Service recently has proposed making those regulations more difficult to comply with, as discussed in subpart f below, it is possible that some mail currently entered on 5-digit pallets will have to migrate back to 3-digit pallets, thereby adding to the Postal

Service's bundle sorting, bundle breakage and other materials handling costs. As explained in my answer to subpart f, I consider this an unfortunate development, but it nevertheless must be considered if one wants to estimate future 5-digit pallet volumes.

Another factor, which may work in the opposite direction, is the recent availability of the L001 list, which allows the combining of mail going to two or more 5-digit zones if the zones are served by the same DDU. This will make feasible many more 5-digit pallets, but I do not know whether it will be enough to outweigh the possible adverse impact of the regulation change discussed above.

Further possible migration will come in the short run from cases where mailers who palletize have between 250 and 500 pounds going to certain 5-digit zones and currently do not elect to make 5-digit pallet to those zones. Because many printers are concerned about the extra work involved in preparing mail on pallets with finer presort, some of the proposed discount will no doubt go towards reimbursing printers for the extra work, which helps avoid Postal Service costs. Printers may need some time to figure out how to organize their work in such a way that they can provide pallets with high presort without incurring substantial extra costs.

In the longer run, a discount for 5-digit pallets will provide added incentives for co-mailing and co-palletization which will increase the potential volume on 5-digit pallets. The discount is also likely to encourage more mailers to bring their carrier route presorted Periodicals directly to the DDU.

- f. I assume you refer to the regulation change proposed in the Federal Register notice dated February 29, 2000 (65 FR 10735) and the amendment to that notice on March 30, 2000 (65 FR 16859). Yes, I am familiar with that proposal. Both notices are very long and difficult to read, but as I understand it the Postal Service essentially proposes no longer to permit carrier route and 5-digit packages to be placed on the same 5-digit pallet, except pallets going to delivery units that still perform their own incoming secondary sortation of flats mail. Presumably, the Postal Service would maintain and continuously update a list of the ZIP codes where this sortation is done at the DDU.

Before discussing how this might affect the 5-digit pallet discount proposed in my testimony, let me point out some serious problems with the proposed regulations.

First, if the Postal Service believes that this change will add significantly to the mail available for automated sorting, it is likely to be disappointed. According to the tabulation in USPS LR-I-87, only 3.1% of the mail on 5-digit regular rate Periodicals pallets is in 5-digit bundles that require incoming secondary sortation. About half of that is non-automation 5-digit mail. Given that only about half of the automation compatible flats requiring incoming secondary sorting actually are sorted on FSM's, the amount of extra mail that the Postal Service will be able to sort by automation through this proposed regulation change is small indeed. Put another way, only 0.37% of the regular rate 5-digit automation mail is entered on 5-digit pallets.

For nonprofit Periodicals, only 1.3% of the mail on 5-digit pallets is in 5-digit bundles. And almost all of that is non-automation mail. Only 0.04% of the 5-digit nonprofit automation mail is on 5-digit pallets.

If one can assume that the LR-I-87 survey data are reasonably accurate, then it is difficult to understand what the Postal Service thinks it will accomplish by the proposed regulation change. Field managers generally appear to want more 5-digit pallets that they can just cross-dock. Some even express willingness to take 5-digit pallets with substantially less than the 250 lb. minimum weight. The available cost data fully support the proposition that more 5-digit pallets will reduce Postal Service costs, and that the small number of 5-digit bundles that might miss the opportunity for automated incoming secondary sorting is insignificant compared with the costs saved by 5-digit palletization.¹

Second, even though the proposal will add very little to the 5-digit volume available for automated sorting, it will in many instances make it difficult for mailers to meet

¹ The preamble to the FR notice claims feedback from both field managers and the Report of the Periodicals Review Team as support for its proposal to require the separation of carrier route and 5-digit bundles on 5-digit pallets. As I recall, the Team heard far more sentiment in favor of increased use of 5-digit pallets than the opposite.

the weight minimum required to make up a pallet to a particular DDU. The largest impact may occur for heavy magazines. Magazines weighing more than a pound per piece need fewer pieces to a given DDU to meet the weight minimum, but a 5-digit pallet with fewer pieces is more likely to include 5-digit bundles, because there may not be six or more pieces to every carrier route. Disallowing the mixing of carrier route and 5-digit bundles is therefore more likely to affect such magazines. But flats weighing over a pound are, as I understand, unlikely to be sorted on the AFSM-100 machines and more likely to be sent to the FSM-1000 machines, which so far seem to be used little for incoming secondary sortation. Since these magazines are likely to be sorted manually anyway, the net result will simply be increased Postal Service costs.

Simulations on actual mailings performed by Time Inc. have indicated that the greatest loss of ability to make 5-digit pallets will occur for very heavy magazines, e.g., Fortune and In Style. These simulations also indicate that the result will be higher postal costs, even assuming that all the 5-digit mail no longer allowed on 5-digit pallets would receive automated incoming secondary sorting.

While the Postal Service obviously must try to make the fullest use of all its automated equipment, it must also pay attention to where its costs are increasingly concentrated, namely in materials handling functions at platforms and opening units. Denying itself the opportunity to have more mail bypass platform handling and bundle sorting at the DSCF is in my opinion shortsighted.

Nevertheless, my proposal is to provide a discount for 5-digit pallets that comply with all Postal Service regulations. If the new regulations eliminate the 5-digit pallets where the Postal Service is least convinced of real cost savings, there is even more reason to encourage those 5-digit pallets that still are possible.

- g. There will of course not be any net loss of revenue, but I assume you refer to rate design terminology where "revenue leakage" usually means the total amount of a discount. In this case, that is simply two cents multiplied by the volume likely to be on regular rate and nonprofit 5-digit pallets in the test year. A rough estimate can be obtained as follows. Assume that, as estimated in my answer to subpart c above,

the combined DSCF and DDU 5-digit pallet entry is 12.32% of the regular rate carrier route volume. Assume further that carrier route is 39% of all regular rate volume. With 7.2 billion regular rate pieces per year, a two cent 5-digit pallet discount translates into roughly \$6.9 million per year.

For nonprofit, a similar calculation indicates that the total amount of the discount would be about \$1.6 million per year.

- h. There are several issues that the Commission must settle before it determines Periodicals rates in this docket. There may also be more than one way to fit into the rate schedule a two cents per piece discount for Periodicals flats on 5-digit pallets entered at the DSCF or DDU.

Assume, however, that 12.32% of the regular rate carrier route presorted flats currently are on 5-digit pallets and that it is decided to implement the 5-digit pallet discount for carrier route mail as an adjustment within the carrier route rate category. It can easily be shown that one then would have to raise the rate for carrier route mail not on 5-digit pallets by an amount of $2 \times 0.1232 = 0.2464$ cents per piece over what the rate would otherwise have been. This would be rounded either down to two tenths of a cent or up to three tenths of a cent. For nonprofit carrier route mail, a similar approach would raise the rate for carrier route mail not on 5-digit pallets by 0.153 cents over what it otherwise would have been. This would be rounded either up to two tenths or down to one tenth of a cent.

A similar approach might be used to set the 5-digit pallet discount for 5-digit bundles. But since there currently is very little such mail on 5-digit pallets, there might not need to be any adjustment in other rates.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/TW-T1-23. Please answer USPS/TW-T1-22, subparts a - h above, assuming, for discount eligibility, a required pallet minimum of 250 pounds..

USPS/TW-T1-23. Current pallet regulations require that mailers who palletize make up a pallet with a given presort when there are 500 pounds or more to a given area. Each pallet generally must contain 250 pounds or more. In order for the answers to this interrogatory to differ from the answers to USPS/TW-T1-22, I assume you mean that a mailer who uses pallets and has 250 pounds or more to a given 5-digit area would be required to make up a 5-digit pallet.

If that indeed is the assumption you want me to make, it of course does not affect the answers to the subparts where you ask about current 5-digit palletization (subparts a and c). Nor does it change the fact that I do not have sufficient information to predict what the volume of 5-digit palletization would be. On the other hand, it can be said that the discount I propose in the short run would have no impact on the volume entered on 5-digit pallets, because mailers would essentially have to make up 5-digit pallets each time they had the volume to do so. This would undoubtedly reduce Postal Service costs, but it would be achieved at substantial extra expense to mailers and printers, for which they would not be reimbursed. Large volume mailers would be required to subsidize other mailers to a greater extent than already occurs today.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

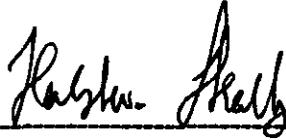
USPS/TW-T1-24. Please answer USPSKW-T1-22, subparts a - h above, assuming, for discount eligibility, a required pallet minimum of 500 pounds.

USPS/TW-T1-24. Current pallet regulations require that mailers who palletize make up a pallet with a given presort when there are 500 pounds or more to a given area. Each pallet generally must contain 250 pounds or more. In order for the answers to this interrogatory to differ from the answers to USPS/TW-T1-22, I assume you mean that the Postal Service would only accept pallets containing at least 500 pounds.

If that indeed is the assumption you want me to make, it of course does not affect the answers to the subparts where you ask about current 5-digit palletization (subparts a and c). Nor does it change the fact that I do not have sufficient information to predict what the volume of 5-digit palletization would be. On the other hand, this would reduce sharply the volume that Periodicals mailers would be able to place on 5-digit pallets. It would also cause a considerable increase in the Postal Service's bundle sorting and other materials handling costs. It would be a step backwards both for the Postal Service and the Periodicals industry.

DECLARATION

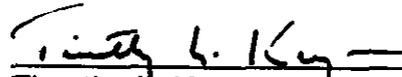
I, Halstein Stralberg, declare under penalty of perjury that the foregoing answers to interrogatories are true and correct, to the best of my knowledge, information and belief.



Date: June 30 , 2000

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with sections 12, 25(a), and 26(a) of the Rules of Practice.



Timothy L. Keegan

June 30, 2000